

UNITED STATES CIVIL SERVICE COMMISSION
BUREAU OF RETIREMENT AND INSURANCE
WASHINGTON 25, D.C.

IN REPLY PLEASE REFER TO

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YOUR REFERENCE

DEC 9 1964

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[Redacted]
President
Government Employees Health Association
P. O. Box 463
Washington 4, D. C.

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Dear [Redacted]

The books and records of the Mutual of Omaha Insurance Company at Omaha, Nebraska, and the General Agent at Washington, D. C. applicable to the Government Employees Health Association operations under its health benefit plan were examined in accordance with Section 11(b) of the Federal Employees Health Benefits Act of 1959 and Section 4.9 of Contract CS 1065 with the United States Civil Service Commission for the third contract period ended October 31, 1963. Copies of the report on the examination are enclosed.

As a result of the examination covering the second contract period, certain adjustments were recommended which were properly incorporated into the Annual Accounting Statement for the second contract period. As noted in the report, certain adjustments for the third contract period are to be included in the Annual Accounting Statement for the fourth contract period. These have been discussed and agreed upon by responsible representatives of the Underwriter and members of my staff.

With reference to the contract provision that specifies "the Carrier will preserve records relating to a contract period for three years after the close of the contract period to which they relate," we recognize that the cost of maintaining inactive supporting paid claim records after review by the U. S. Civil Service Commission for possible review by the U. S. General Accounting Office is an added expense to your Plan -- I am referring to such documents as hospital, doctor, nurse and other bills that are normally maintained in claim files. Under the contract provision the first contract period records may be destroyed after November 1, 1964; however, if your plan

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no longer requires the supporting records relating to the second contract period, I waive the contract's provision for the preservation of these records. This proposal is not a permanent amendment to the contract or to a disposal program; but rather a means to permit destruction of claim records for the second contract period at this time if they are no longer required for claims administration.

Please express my appreciation to representatives of the Underwriter and the Agent for the courtesy and cooperation accorded to the members of my staff during the examination.

Sincerely yours,



Andrew E. Ruddock
Director

Enclosure

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REPORT ON EXAMINATION
OF
GOVERNMENT EMPLOYEES HEALTH ASSOCIATION
CONTRACT GS 1065
FOR THE PERIOD FROM NOVEMBER 1, 1962 THROUGH OCTOBER 31, 1963

Systems and Audits Office
Bureau of Retirement and Insurance
U. S. Civil Service Commission
Washington, D. C. 20415

REPORT ON EXAMINATION

OF

GOVERNMENT EMPLOYEES HEALTH ASSOCIATION

CONTRACT CS 1065

FOR THE PERIOD FROM NOVEMBER 1, 1962 THROUGH OCTOBER 31, 1963

The Government Employees Health Association, an employee organization with headquarters in Washington, D. C., entered into Contract CS 1065 with the United States Civil Service Commission under Section 4(3) of the Federal Employees Health Benefits Act of 1959 to offer its members an indemnity-type health benefits plan. This contract became effective July 1, 1960. Representatives of the Commission examined the Plan's accounting statement and the supporting records of the Underwriter and its General Agent as of October 31, 1963 for the contract period then ended.

GENERAL COMMENTS

Since the Plan is of the employee organization type, enrollments for benefits of the Plan are available to all persons who qualify as members of the Government Employees Health Association (hereinafter referred to as the Association).

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The contract is administered by the Association and underwritten by the Mutual of Omaha Insurance Company of Omaha, Nebraska. Subscription charges received by the Association are transmitted to the Underwriter. Certification of eligibility and adjudication and payments of claims is accomplished by employees of the Association; and the Underwriter, in accordance with its policy, provides such financial and statistical reports as required by the Commission.

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The Plan's earnings during the contract period amounted to [] from subscription charges. Of this amount [] was reported as health benefit charges and [] as expense and retention charges and the sum of [] was reported as income from investments. As of the beginning of the period, the Plan's Special Reserve carried a balance of []. As of the end of the period this reserve had been depleted by operations to a cumulative loss of [].

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The Contingency Reserve, including interest credits, held by the Commission for the Plan amounted to [] as of October 31, 1963.

Claims were generally adjudicated and paid promptly; the books and records of the Underwriter were maintained under generally accepted accounting principles; and, charges to the Plan were maintained below the maximum monetary limitation as specified by the terms of the contract; however, certain adjustments to these charges are necessary as a result of the examination.

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ACCOUNTING STATEMENT

The Plan's accounting statement and supporting schedules as submitted to the Commission appear under Exhibits A and B and the adjustments to the statement and supporting schedules appear under Appendices A and B.

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HEALTH BENEFITS

Payments of claims for hospitalization, physicians' and related charges during the third contract period totalled [redacted] Re-imbursments made to the Association by the Underwriter's Agent were supported by certified listings of claims paid by the Association's representative. These listings contained the number and total value of claims paid and were supported by the Association's worksheets showing the basis on which the amount paid was determined. Subsequent to reimbursing the Association, the Agent transmitted all of the worksheets to the Underwriter's Home Office at Omaha, Nebraska where they were post-audited and posted for accounting and statistical purposes.

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HEALTH BENEFITS ACCRUAL

By an analysis of the Underwriter's records of paid claims and the reserve account it was determined that the accrual of [redacted] as of October 31, 1963 had been understated by an estimated amount of [redacted]. The Underwriter was aware of this condition and it was agreed that an appropriate adjustment would be made to the fourth contract period's accrual. (Appendix - B)

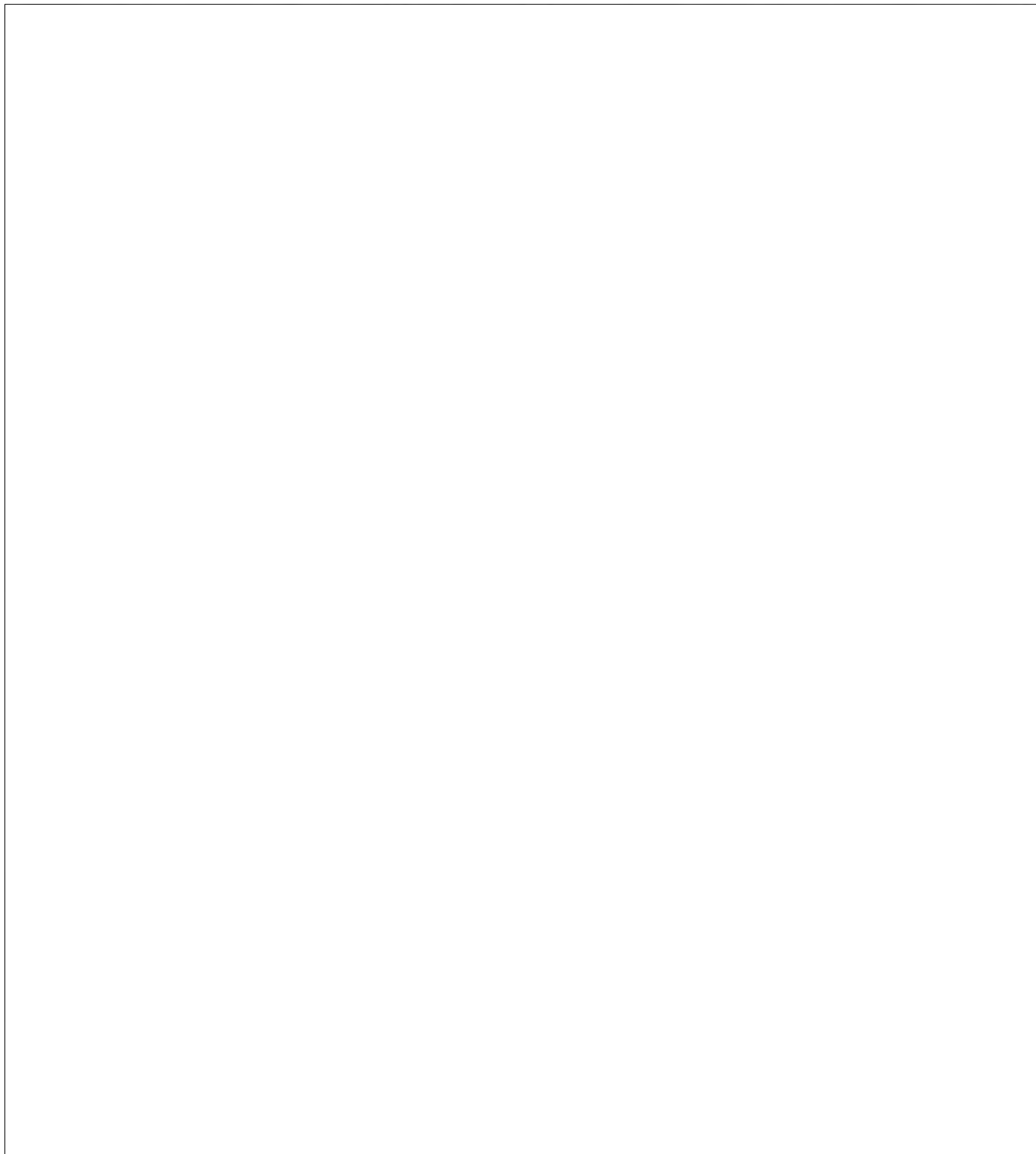
ADMINISTRATIVE CHARGES

The contract provides that administrative charges allocated to this contract shall be the actual, necessary incurred expenses determined on an equitable and reasonable basis, with proper justification

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and accounting support, and requires the Plan to maintain financial records under generally accepted accounting principles.

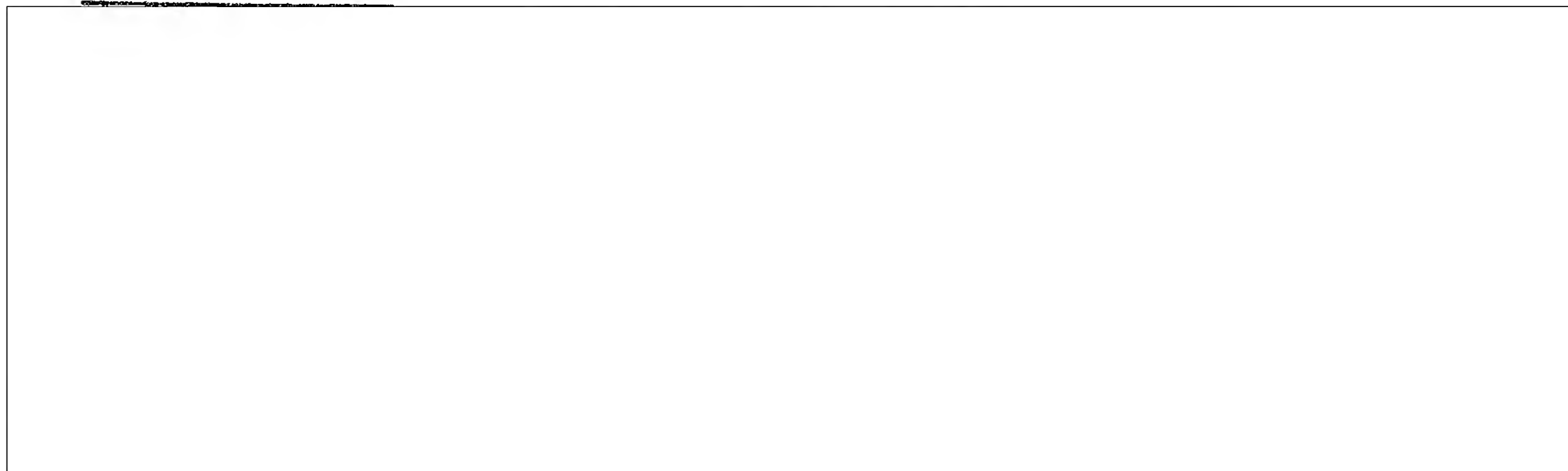


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SPECIAL RESERVE



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SCOPE OF EXAMINATION

This report covers a survey of the Underwriter's internal control for claims administration and accounting procedures; and the examination made of subscription charges, health benefit charges, administrative expense, retention charges, and the Special Reserve.

Postings of the value of paid claims to the Underwriter's records were verified to the cleared drafts on a test-check basis; and the total amount paid as shown by the Plan's accounting statement was verified to the Underwriter's records.

A verification was made of the accrued health benefits as of the end of the contract period based upon the experience of claims paid during the first six months of the fourth contract period.

All administrative expenses were verified to the Underwriter's books of account and a representative number of accounts were verified to the source documents.

Taxes paid were verified to the Underwriter's records and books of account.

The computation of the commissions, override and risk charge was verified.

The Plan's investment income together with its Special Reserve was verified to the Underwriter's records as of the end of the third contract period.

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